

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2661, H.D. 1

February 28, 2012

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST
FUND

House Bill No. 2661, H.D. 1, requires the Department of Budget and Finance (B&F) to conduct a study in order to improve the financial health of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) including (among others):

- 1) Implementation of reforms that moderate the annual contributions of public employers for active and retiree health benefits while maintaining sufficient benefit coverage for active and retiree members;
- 2) Ways to address the unfunded actuarial accrued liability and implementation of reforms to amortize the unfunded actuarial accrued liability of the EUTF over thirty years from July 1, 2014;
- 3) Cost of providing benefits; and
- 4) Structuring of the organization of the EUTF Board of Trustees to ensure equitable and prompt decisions.

The bill authorizes B&F to conduct the study in-house or to contract out the study. Note - the bill (Section 4 on pages 3-4) specifically prohibits B&F from including "in the study any recommendation to diminish the health benefits or public employers' contributions for employees who retired from public service before July 1, 2014." The bill appropriates \$100,000 in general funds for FY 13 to conduct

the study. The study is due to the Governor, Legislature and EUTF Board of Trustees before the convening of the 2014 regular session.

B&F supports the concept of conducting a study to examine ways to better control active employee and retiree health benefits costs and reduce the unfunded actuarial accrued liability of retiree health benefits. However, we believe that the specific prohibition against considering "any recommendation to diminish the health benefits or public employers' contributions for employees who retired from public service before July 1, 2014" contained in this draft of the bill is counterproductive to the objective of developing realistic options to control EUTF costs and reduce the EUTF's unfunded liability.

It should be noted that benefits are the key cost drivers of any health benefit plan, and retiree costs represent 63% (\$314.8 million) of the State's FY 12 budget for health benefit contributions (\$502.7 million). If the study is prohibited from examining retiree benefit level or contribution changes then, in our opinion, the study would be of limited utility. Focusing on reforms that could possibly make the EUTF more efficient may provide some potential savings, but material cost savings and reductions in the EUTF's unfunded liability, we believe, can only be obtained by taking the difficult step of looking at retiree benefits. In the end, a realistic balance must be struck between providing a reasonable level of health benefits for active employees and retirees, and the State's (and taxpayers') ability to support and sustain those benefit levels over the long term.

For these reasons, we strongly recommend that Section 4 (prohibition to recommend retiree benefit level changes) of the current draft be deleted.

We look forward to working with the Legislature on this important matter and would welcome the opportunity to further explore the parameters for the study.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

**The Twenty-Sixth Legislature, State of Hawaii
House of Representatives
Committee on Finance**

**Testimony by
Hawaii Government Employees Association
February 28, 2012**

**H.B. 2661, H.D. 1 – RELATING TO THE HAWAII
EMPLOYER-UNION HEALTH BENEFITS TRUST FUND**

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO opposes the intent of H.B. 2661, H.D. 1, which appropriates \$100,000 for the Department of Budget and Finance to conduct a study to reform the Hawaii Employer-Union Health Benefits Trust Fund (EUTF).

For the past four Sessions, we, in conjunction with the other public sector exclusive representatives, have consistently been strong proponents to reform and restructure the EUTF. We have collectively supported reform efforts via identical legislation introduced in both the House and Senate, including:

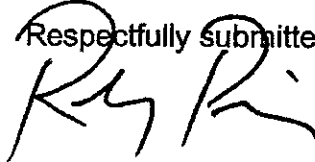
- 1) H.B. 1168 (currently referred to your Committee) and S.B. 1066 (carried over from 2011 session and currently referred to your Committee), which clarify the fiduciary responsibilities and liabilities of the Trustees, allow the EUTF to hire attorneys, and alter the composition of the Board and quorum requirements;
- 2) H.B. 1174 and S.B. 1078 (in Conference), which include EUTF benefits as a mandatory subject of negotiation between the Employer and Exclusive Representative and make disputes over contributions subject to the arbitration process;
- 3) H.B. 1848 (will be heard later this afternoon by your Committee) and S.B. 2214 (will be heard tomorrow by Senate Committee on Ways & Means), which allow for disputes over the contributions to the EUTF to be resolved via the impasse procedure.

In addition to the bills listed above, we understand there is pending legislation which would deposit excess general fund revenues to fund other post-employment benefits, allow the EUTF trust to pre-fund, and automatically deposit general excise tax revenues into the EUTF Trust Fund until the liability is fully amortized. Collectively, these bills address the array of issues within the scope of the proposed study, outlined in H.B. 2661, H.D. 1, which includes reducing the benefit costs, amortizing the unfunded actuarial accrued liability, recomposing the Board of Trustees and various forms of cost-containment. Therefore we find it unnecessary and premature to expend taxpayer

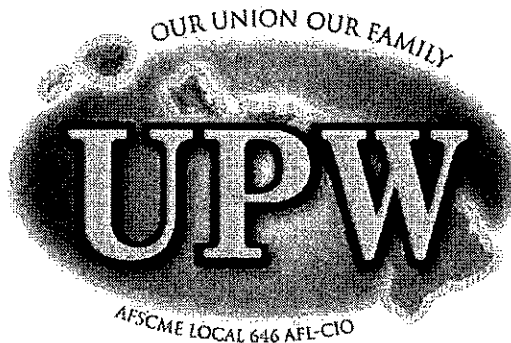
money to further study potential restructuring and reform, when the Legislature currently has a multitude of options before them. In lieu of appropriating \$100,000 to conduct a study on the EUTF, we respectfully request active and meaningful participation from all parties involved to produce viable alternatives.

Thank you for the opportunity to testify on this measure.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Randy Perreira', written over the typed name.

Randy Perreira
Executive Director



THE HAWAII STATE HOUSE OF REPRESENTATIVES
The Twenty-Sixth Legislature
Regular Session of 2012

COMMITTEE ON FINANCE

The Honorable Rep. Marcus R. Oshiro, Chair
The Honorable Rep. Marilyn B. Lee, Vice Chair

DATE OF HEARING: Tuesday, February 28, 2012
TIME OF HEARING: 10:00 a.m.
PLACE OF HEARING: Conference Room 308

**TESTIMONY ON HB 2661 HD1 RELATING TO THE HAWAII EMPLOYER-
UNION BENEFITS TRUST FUND**

By DAYTON M. NAKANELUA,
State Director of the United Public Workers,
AFSCME Local 646, AFL-CIO ("UPW")

My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 11,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

HB 2661 HD1 requires the Department of Budget and Finance (BUF) to conduct a study to reform the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and that the department submit it to the Governor, the Legislature, and EUTF Board of Trustees prior to the convening of the 2014 regular legislative session. The bill also appropriates \$100,000 in FY 2012-2013 to conduct the study. UPW opposes this measure.

While the state economy is still recovering from the recent recession, it is imprudent to expend any amount of funds for this purpose.

Thank you for the opportunity to testify on this measure.



House Committee on Finance
Tuesday, February 28, 2012
10:00 a.m.

HB 2661, HD1, Relating to the Hawaii Employer-Union Health Benefits Trust Fund.

Dear Chairman Oshiro and Committee Members:

The University of Hawaii Professional Assembly (UHPA) opposes this proposed legislation as being an unnecessary state expenditure. Plus it fails to include representatives of public employees in the study.

For a number of years, UHPA with other unions have advocated reform measures that strengthen the current Employer-Union Trust Fund utilizing collective bargaining to better determine the allocation of limited resources between benefits and wages. These efforts created knowledgeable and skilled public employee advocates that understand health care policy and the challenges faced in Hawaii. UHPA does not believe that HB 2661, HD1 will advance an appropriate discussion of the EUTF. UHPA encourages the Committee to reject this proposal.

Respectively submitted,

A handwritten signature in black ink, appearing to read "Kristeen Hanselman".

Kristeen Hanselman
Associate Executive Director

UNIVERSITY OF HAWAII
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